SUPERMARKET BUSINESS

ANNUAL SURVEY OF GM PERFORMANCE

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AUGUST 1991

FRESH MEAT *STRIKES BACK*

BEEF slows its slide, while prices increase
POULTRY consumption continues upward
1990 was best year in past five for meat sales

Ralp
Executive Vice President

Patrick Collins
President

THE LOOK OF PRIDE

Ralphs takes the 'value added' route with its Private Selection brand

SUPERMARKET BUSINESS

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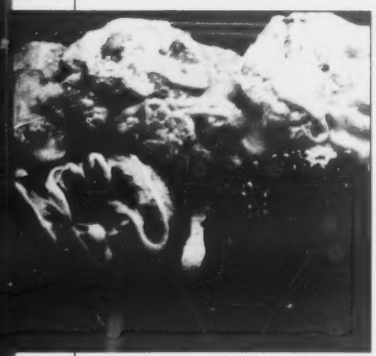

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Cover Photo: Juaquine E. Matthews

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NEAR MISSES IN BUSINESS REPORTING

Hardly a week or a month goes by, it seems of late, when the general business press doesn't carry a major feature on the supermarket business. Not so long ago, this was not the case.

This is probably because the supermarket industry was so recently discovered by Wall Street and the security analysts—in the mid-'80s, or so. Food stocks have been hot stuff among retailers as well as manufacturers, even during this recession, because sales and profits in this industry have held up well.

But the curious thing is how often these sometimes lengthy feature articles are way off the mark. A few months ago, *The Wall Street Journal* carried a long and jaunty piece about how marketers now know exactly what brand and flavor of herb tea your Aunt Daisy prefers, and what additional assorted items she would be apt to buy, say, on the morning of April 17th.

This was all supposedly a result of the miraculous and mysterious things that can be done, today, through the magical processing of scanner data. The fact that you would have to build an enormously expensive data base was barely mentioned. The additional fact, that most attempts in this area have proved more expensive and time consuming to perform than they are worth, had little impact on the writer or *The Journal*. This is the business journalism myth of *Star Wars* marketing.

In two recent articles in *Forbes* we learned that (a) the success of Food Lion is all because the store managers do not have to waste their time performing buying and pricing chores, because all this is done centrally in the North Carolina headquarters. *N'est-ce pas?* And (b) in the next article a few weeks later, it was explained that food stocks were losing their glow to sharp market analysts because of rampant price wars. (We know of only one, in Phoenix, which we reported a year ago).

In addition, and possibly contradictorily, consumers were suffering by not getting price breaks that would otherwise be passed along, if it were not for all the big companies involved in LBOs. This drivel went on like this to explain that by closing failing stores, both Vons and Safeway had become leaders in their markets, and [thus] "by dominating market share in key areas, the chains could control pricing." Phew! This same article discovered the use of "double" coupons, and explained how they work.

It takes effort to understand the supermarket industry. Sadly, the general business press has not made that effort.

In a smorgasbord of supermarket operations around the country, which appeared in *Forbes*, May 27, we not only learn that, "If the industry weren't so leveraged, the consumer would be getting better deals," says Dean Witter, but that "American consumers, burdened with debt and cutting back spending in a recession, are simply spending less on food," says DRI/McGraw Hill economist. (We found no such general trend at all in our own research. See "Shopping Habits," page 55.)

Still fascinated with those price wars, the writer of the *Forbes* piece moves on to Atlanta, where Winn-Dixie has adopted an EDLP format, and Kroger "... immediately offered triple coupons—dipping into its own pocket to offer the consumer twice [sic] the value of a coupon."

The real whopper of the article occurs at its conclusion. "How to fight back?" the writer asks rhetorically, then answers, "Some chains are starting to use the information generated by their scanners at the checkout ..." (here we go again) ... "to counter quickly what the competition does—not unlike the way airlines instantly adjust fares. Vons, for example, is experimenting with labor-saving electronic price displays linked to its checkout scanners. That way, prices can be changed instantly. 'That's rational competition.'" explains Paine Webber analyst Gary Giblen. That's barnyard documentation! we exclaim.

The beat goes on. The *Times* Sunday business section, May 26, picks up on the *Wall Street Journal Star Wars* myth of modern marketing called, "Targeting the Grocery Shopper." What else? With a huge close-up photo of a scanner with a UPC code on a product reflecting those mysterious scanner lines.

The caption to the photo says, "For years, bar code technology has been used to monitor supermarket inventories. [Really? We thought it was sales, or movement.] Now it may [*may* is the key word] also tell stores who is buying what." This article is more realistic than the *WSJ* story of March 18, because it does get around to telling the reader that electronic marketing may not be as wonderful as we have been led to believe, and that Citicorp has cut back in this area.

In neither of these articles on electronic marketing was the most important question raised about processing these enormous mounds of data. Namely: Who shall pay? Citicorp didn't get around to this question until top management pulled the plug on its Reward America program.

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FRESH MEAT STRIKES BACK

SECOND ANNUAL FRESH MEAT OPERATIONS REVIEW

An upsurge in growth was the big news in the meat department in 1990. Sales rose 3 percent as beef pulled out of its slide.

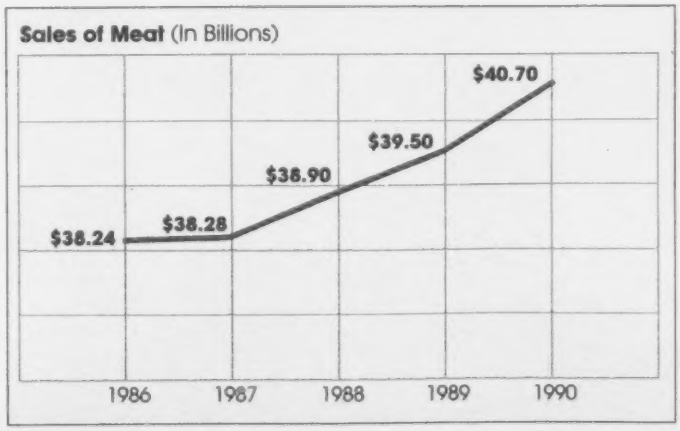
BY: DAVID LITWAK AND JANET TORRES CEPEDA

Much to the delight of ranchers, butchers, and just about anyone connected with the meat industry, the sales of fresh meat rose in supermarkets in 1990. The increase was spurred by sales gains in beef and poultry.

Sales of fresh and cured meats increased 3 percent in 1990. This gain was about twice the increase in meat sales in 1989. As a matter of fact, during the prior two years together (1988 and 1989) meat sales increased only 3.2 percent. Last year's 3 percent increase was the largest in the past five years.

The reason for this is easy to explain, at least from a numerical point of view. Beef sales were up 2.9 percent versus last year. As beef goes, so goes the meat department.

Coupled with the increase in beef sales was an increase of



In 1990 the meat department saw its biggest sales increase in more than 5 years. The section generated sales of $40 billion last year.

SALES & PROFITS

In the nation's 30,750 supermarkets, the $40,665,505,000 meat sales averaged out to $25,432 per store per week. In larger stores the average weekly sales exceeded $35,000.

Most supermarket companies (69%) report a slight increase in meat sales over the past year. However, 21% of the companies, which is a significant amount, did experience a drop in their 1990 meat sales.

The meat department's share of total store sales and its contribution to store profits remained fairly stable last year. There was a small increase in the department's gross margin; it is now up to 22.9%.

Sales:

Number of Meat Departments	**30,750**
100% of All Supermarkets	
Total Sales of Fresh & Cured Meat*	**$40,665,505,000**

*Does not include fish, or products sold at the Service Deli.

Average Weekly Sales Per Store

Mean **$25,432** Median **$26,320**

By Type of Store:

Conventional	**$18,900**
Larger Store	**$35,685**

Meat's Share of Total Store Sales

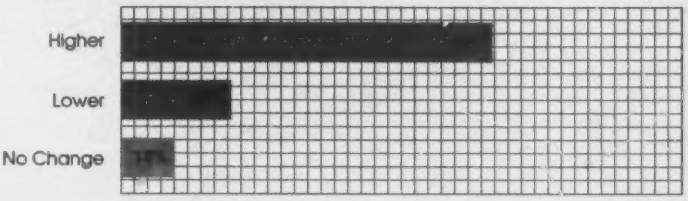
Mean **17.6%** Median **16.8%**

Meat's Contribution to Overall Store Profits

Mean **16.6%** Median **15.0%**

Changes in Dollar Sales (1990 vs. 1989)

(% of Companies Reporting)



Average Gross Margin

Mean: **22.9%** Median: **23.1%**

Less than 18	**4%**
18–20	**27**
21–22	**30**
23–24	**22**
25–26	**9**
Over 26	**8**
Total	**100%**

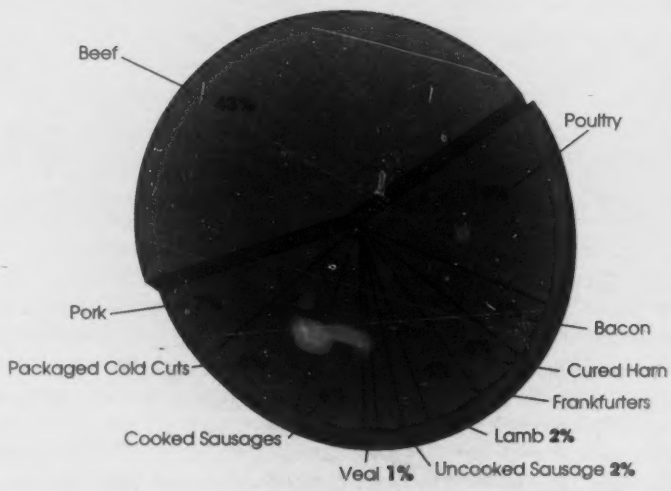
PRODUCTS

Despite the gains in sales and departmental market share by poultry, the meat department may as well be called the "cow" section. Beef still completely dominates the section, commanding 43% of the sales which is 1 percentage point under its 1989 share of meat sales. Supermarkets sold more than $17 billion worth of beef in 1990.

Poultry gained 2 share points last year and now accounts for 19% of all meat sales, roughly $7.6 billion, while pork lost 2 percent of market share. Its sales of $2.86 billion account for just 7% of meat's sales.

Supermarkets are branching out with the kinds of products that their meat departments now sell. They are offering more prepared dishes, such as ready to cook entrées, side dishes, and packaged prepared dishes, and more specialty cuts of meat, such as "Certified Angus" and "Natural Beef."

Portioning Out Meat Sales



Dollar Sales of Fresh Meat

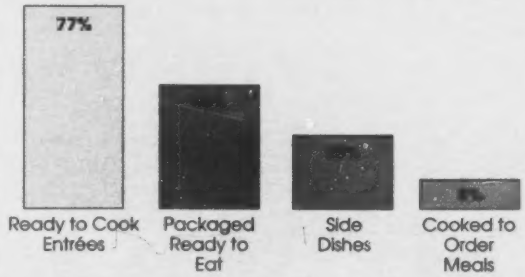
	(Add 000)
Beef	**$17,267,481**
Poultry	**7,611,389**
Pork	**2,855,150**
Lamb	**940,091**
Veal	**406,796**

Type of Beef Used

Boxed Beef	**92%**
Case Ready	**6**
Close Trimmed Boxed Beef	**1**
All Others	**1**
Total	**100%**

Standard Trim	**1/4 inch**
Stores with Smokehouses	**4%**

Sales of Value-Added Meat Products



Sales of Specialty Items (% of Companies)

	Now Selling	Will Sell More in Future	Will Sell Less in Future
Certified Angus	**13%**	**8%**	**5%**
Natural Beef	**12**	**15**	**0**
Other Branded Cuts	**10**	**12**	**0**
"No Roll"	**37**	**12**	**6**

4.3 percent in the sales of fresh poultry. When sales of the top two product categories in the department increase, the departmental totals follow suit.

On a product-by-product basis, the interaction between consumption patterns and prices has a dramatic effect on the meat category. Even though dollar sales of beef increased, for instance, per capita consumption actually decreased slightly (-1.4%). An increase in beef prices of about 4.2 percent to consumers pushed the dollar amounts up.

Even though the tonnage of beef slipped somewhat, 1990 was still a very good year for the beef industry. The loss of only 1.4 percent in per capita consumption actually represented the beginning of what the industry hopes will be a turnaround for supermarkets' single biggest product category. In the past three years, per

capita consumption of beef had slipped 5.2, 3.7 and 8.0 percent.

Fresh poultry continues to be a boon to producers, retailers and consumers alike. Total dollar sales continued to rise last year. Boosted by the continuing trend toward changing eating habits, sales of both chicken and turkey rose last year, as did the popularity of precooked, refrigerated chicken products.

Per capita poultry consumption was up 5.4 percent in 1990, while poultry prices remained stable. So dollar sales increases in poultry prices represented a pure gain in product sales, not in price changes. Poultry's 1990 gain was smaller than those of the prior two years, which saw increases of 10.8 and 7.5 percent.

A Real Porker

The dark spot in the meat locker belonged to pork, which had a dismal sales year in 1990. Dollar sales of pork decreased 13.5 percent. This was the largest drop in sales of any meat product since the performance of veal in 1986.

Significantly, pork lost a large portion of its dollar sales volume, despite a 9.6 percent increase in the price of the product. This means that per capita consumption of pork during 1990 was actually down about 21 percent. This drop was due to a combination of changing consumer trends and supply shortages.

Lamb remained the most stable performer in the meat case last year. Its sales of $940 million remained unchanged from the year before. Both per capita consumption and prices were unchanged last year.

Veal had another rough year in 1990, decreasing in sales volume by 4.1 percent. Per capita consumption was down 8.3 percent, but the category was bolstered by a 4.2 percent increase in retail prices.

The meat department received a great deal of assistance from the packaged cured and processed meat section. Sales of all the individual categories were up last year, with increases ranging between 5.1 and 8.0 percent.

Sales of the complete section increased 6.7 percent to a total of $11.58 billion. This represented a larger increase than the 2.0 percent the category showed in 1989. It appears that consumer confidence in the categories in this section has returned, and that the new products introduced over the past two years have helped stem the tide of consumer abandonment due to concerns about nutrition and food additives.

Over 40 Billion Sold

Sales of fresh and cured meats through supermarkets hit a new high last year, reaching $40.67 billion. This makes the section second only to the grocery food department in total sales. As a matter of fact, the average share of store sales for the meat department was 17.6 percent (even higher in some supermarkets which are "heavy meat stores").

Meat is not only a heavy seller in almost every supermarket, it is also an important profit generator. Last year the meat department contributed an average of 16.9 percent of the total store's profits, based on an average gross margin of 22.9 percent.

With all the talk in the industry about offering more oven-ready or value-added products, and more service meat sections on the one hand, and more case-ready products on the other hand, one would expect the department's labor costs to have changed. But there has been no real change in the way labor affects the meat department's bottom line.

On average it still costs about 10.2 percent of sales to pay for the meat department's labor force. This is about where it was last year. The figure really hasn't changed because the number of employees in the department hasn't changed—there are still the equivalent of

The dark spot in the meat locker belonged to pork, which had a dismal sales year in 1990. Dollar sales of pork decreased 13.5 percent. This was the largest drop in sales of any meat product since the performance of veal way back in 1986.

SPACE & LABOR

The average meat department got a little larger last year. It now occupies about 2,410 sq. ft. of space. Despite this increase in space, the weekly sales per square foot continued to rise in 1990. Each foot brought in $10.55.

There were very few changes in the department's labor picture last year. It still takes the equivalent of 6.1 full-time employees to operate the meat department, the same as in 1989.

The cost of this labor dropped ever so slightly from 10.6% in 1989 to 10.2% in 1990. The good news is that the employees appeared to be more productive. In 1990 each employee had average weekly sales of $4,169, which was $109 more than the 1989 average.

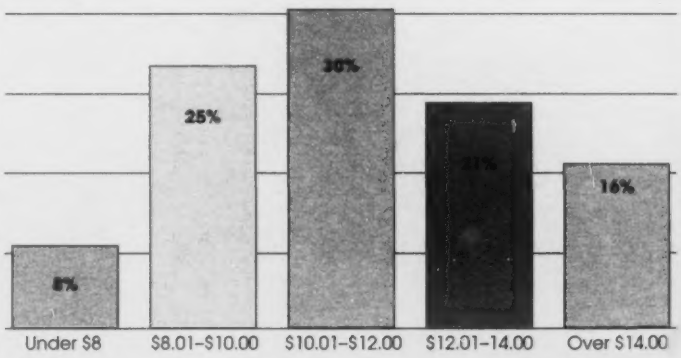
Size of Department	
Mean	2,410 sq. ft.
Median	2,345 sq. ft.

By Type of Store	
Conventional	2,040 sq. ft.
Larger Stores	2,680 sq. ft.

Average Weekly Sales Per Square Foot of Space	
Mean	$10.55
Median	$10.37

By Type of Store	
Conventional Stores	$9.29
Larger Stores	$13.68

Average Weekly Sales Per Square Foot (% of Companies)



Number of Employees	
Full-Time	4.4
Part-Time	3.5
Full-Time Equivalent	6.1

Meat Depts. With Trained Chefs	
None	84%
In All Stores	5
In Some Stores	11
Total	100%

Cost of Labor As a Percent of Meat Sales	
Mean 10.2%	Median 10.8%

Cost of Labor	
Under 8	3%
8–9.9	28
10–11.9	32
12–14.9	28
15 & Over	9
Total	100%

Average Weekly Sales Per Employee	
Mean $4,169	Median $4,225

MERCHANDISING & PROMOTION

If you want some meat, go get it yourself! This continues to be the motto of the meat department, as the overwhelming majority of them (70%) continue to be strictly self-service operations. The remaining departments are mostly combinations of service/self service operations, with few totally service departments. In the future, retailers say, there will be more service counters operating in the section.

Instore, meat departments are using recipe cards and sampling as the two most widely used methods of meat promotion. Nutritional fact sheets, cooking demonstrations and videos are declining in popularity as instore prmotions for meat.

Externally, newspapers continue to be the most popular form of advertising for the meat department. They are almost universally used (95%). Radio, store circulars, and POP materials are also used by the majority of companies.

How Meat Is Sold (% of Stores)

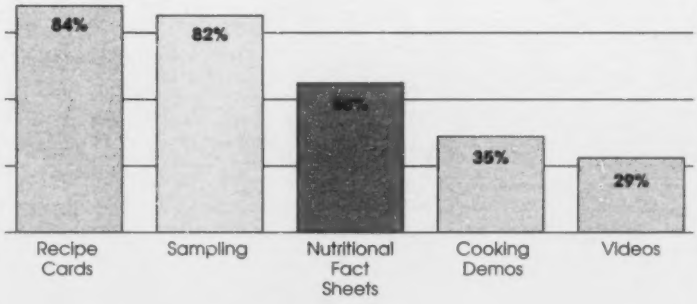
Self-Service Only	70%
Combination	18
Service Dept. Only	12

In Which Direction Will Your Stores Go In Future?

Toward More Service Meat	35%
Toward More Self-Service Meat	12
No Change	53
Total	100%

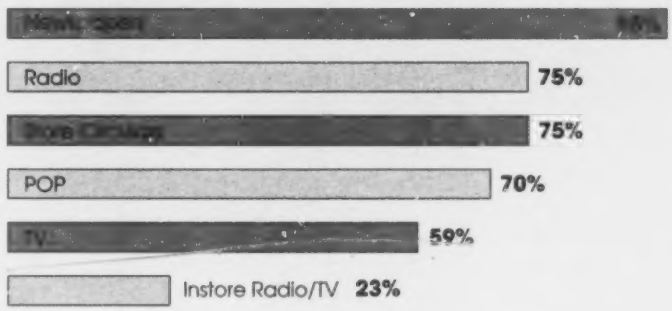
Use of Instore Promotions for Meat

(% of Companies)



How Meat Department Is Promoted

(% of Companies)



6.1 full-time employees.

Labor costs as a percentage of sales have not decreased with the increase in sales due to offsetting payroll and benefits costs. On average, each employee generates weekly sales of $4,169, which is an increase over 1989's $4,060.

More Products, More Space

With the proliferation of products in the meat case, and the various services that some retailers have begun to offer, it is not surprising that physically the meat section would slowly begin to grow. Last year the average department grew slightly to 2,140 sq. ft.

Growing along with the footage was the average sales volume per square foot of space. This grew from $10.42 in 1989 to $10.55 in 1990. Not stellar growth, but growth in keeping with the growth levels exhibited in the rest of the operational aspects of the department. Sales, space, and labor all grew slightly or remained close to their 1989 levels.

Despite the installation of service meat counters by many operators, self-service continues to be the predominant method of merchandising meat. Seventy percent of all supermarkets have only self-service meat departments, and additional 18 percent have a combination of service counters and self-service meats. Only 12 percent sell all their meat from behind the manned counter.

Retailers predict a slight upswing in the number of service meat sections in the future. Thirty-five percent indicated they would incorporate more service sections into their meat departments in the future. Twelve percent felt they would be more likely to go more in the direction of self-service in the future, while the remaining 53 percent saw no major changes in their meat merchandising in the future.

The meat department received a great deal of assistance from the packaged cured and processed meat section. Sales of all the individual categories were up last year, with increases ranging between 5 and 8 percent.

Promotion has been used extensively by both retailers and meat promotion boards to try to stem the tide of consumers cutting down on various cuts. Last year was no exception, although the medium used may have shifted a little.

Recipe cards are still the most popular form of meat promotion, they are used by 84 percent of the supermarket companies. Consumers are still looking for recipes that offer a lower fat and cholesterol alternative for preparing their favorite cuts of beef, pork, lamb, veal and chicken. Recipes cards also help them skillfully prepare new cuts of meat they are not familiar with.

Sampling is on the rise in the meat section, its use has increased from 76 percent of the companies to 82 percent last year. This should continue to grow as more supermarkets become more involved with prepared or semi-prepared meat products. Meat departments appear to be taking a cue from their deli and instore bakery neighbors in the use of sampling.

While 58 percent of the companies still use nutritional fact sheets as a promotional device, their use has dipped from 1989's 67 percent level. This drop, along with a similar decrease in the use of promotional videos (from 33 to 39 percent), is probably due to less new materials becoming available from the marketing boards and promotional agencies. The use of cooking demonstrations has also dropped from 43 percent to 35 percent during the past year.

The meat department, not unlike the original state of its major product, is usually a big, somewhat lumbering entity within the store, just sort of ambling along picking up sales at its own pace. With a department this size there is very little that any one promotion can do to change this pattern for any long term.

The strategy used by meat departments during 1990 was to tighten up the operation as much as possible and experiment with prepared dishes, alternative cuts and services. As a strategy, this appeared to work.

Most retailers find their meat departments to be far too much of a competitive tool and a profit center to risk damaging it with any radical departures from what they have done in the past. ■

SHOPPING HABITS: HAS THE RECESSION HURT SUPERMARKETS?

BY DAVID LITWAK AND JANET TORRES CEPEDA

It's a safe bet that supermarkets, particularly instore operations, will suffer when the economy goes soft. But when it comes to the current recession ... all bets are off.

Have supermarket service delis and instore bakery departments been hurt by the recession? Are customers spending less in general, selecting cheaper items and searching high and low for the supermarkets that offer the biggest bargains?

The answer to both questions is a resounding no. Shoppers may be buying cheaper items, but they have not yet put a lock on the wallet, according to an exclusive SUPERMARKET BUSINESS survey of both consumers and supermarket retailers. Only a quarter of the consumer group said they shop the service deli or instore bakery less often than before. Retailers told us that business may have slowed, but they are still waiting for the big drop-off in sales that seems to have affected so many other areas of the business world.

The nationwide survey was conducted in May by the ICR Survey Research Group (Media, Pa.). It included a telephone survey of more than 1,000 households. The respondents were asked if the declining economy had caused them to make changes in the items they buy, the prices they pay, the use of promotional products, or the places in which they shop.

At the same time, retailers were asked about the average size of their transactions, whether sales of less expensive cuts of meat and less expensive brands of grocery products had increased, whether they were offering more specials, and what effect the economy was having on their instore sections.

Both retailers and consumers did reveal some cutting back. Many consumers said they had switched to cheaper brands of grocery products, and retailers reported an increase in the sales of private labels. But no major change in consumer shopping or spending patterns was reported by either group.

Just one-third of the consumers said they had switched to cheaper cuts of meat or varieties of fish and

Illustration: Kieron Bergin

The recession may have caused consumers to give more thought to their grocery shopping.

seafood. They said the weak economy had not forced them to purchase less prepared foods at the supermarket. Retailers also said that instore sections have suffered little in this recession, but 59 percent of them have seen their customers switch to less expensive cuts of meat and varieties of seafood.

Many retailers (55 percent) said the average transaction amount had dropped slightly. But most retailers said customers are being more selective, switching to larger sizes or buying more specially priced merchandise.

"The transactions are the same, but the consumer is more selective. They want the most that they can get for their dollar. However, the cost of doing business has gone up substantially, just like in any other retail industry," said Louis Zaret, executive vice president, Grancentral Markets, Stamford, Conn.

Consumers said they had not cut their total weekly

Consumer Survey

Effects of Current Economic Hard Times on Grocery Shopping Habits
(Total sample—1,005 households)

Because of the Economy, Consumers are Likely to:	Yes	No
Change supermarkets	15.1%	82.2%
Spend less now on fresh meat/fish	34.0	64.7
Buy less expensive brands of grocery products	49.1	50.7
Spend less on weekly grocery bill	31.7	67.3
Plan grocery purchases more carefully	64.6	34.9
Use more coupons or shop store specials	63.9	35.1
Shop discount drug stores more	47.6	51.5

	more often	less often	same
Shop more or less often	5.7%	17.7%	76.2%

Shoppers have reacted mildly to the current economic conditions. They remain loyal to the store in which they normally shop, with only 15% changing stores for lower prices, although 47.6% are likely to shop discount drug stores more often.

In terms of what they buy, most consumers do not seem to be buying less expensive meat cuts (only 34%), but they are willing to buy less expensive brands of grocery products (49%).

Only 31.7% of the consumers said they have decreased their overall grocery bill, but almost two-thirds said they plan their purchases more carefully, and make more use of coupons and store specials. More than three-quarters of the consumers shop about the same number of times now as before the economic hard times set in.

Consumer Perceptions of Changes in Supermarket Prices Over Past 6 Months

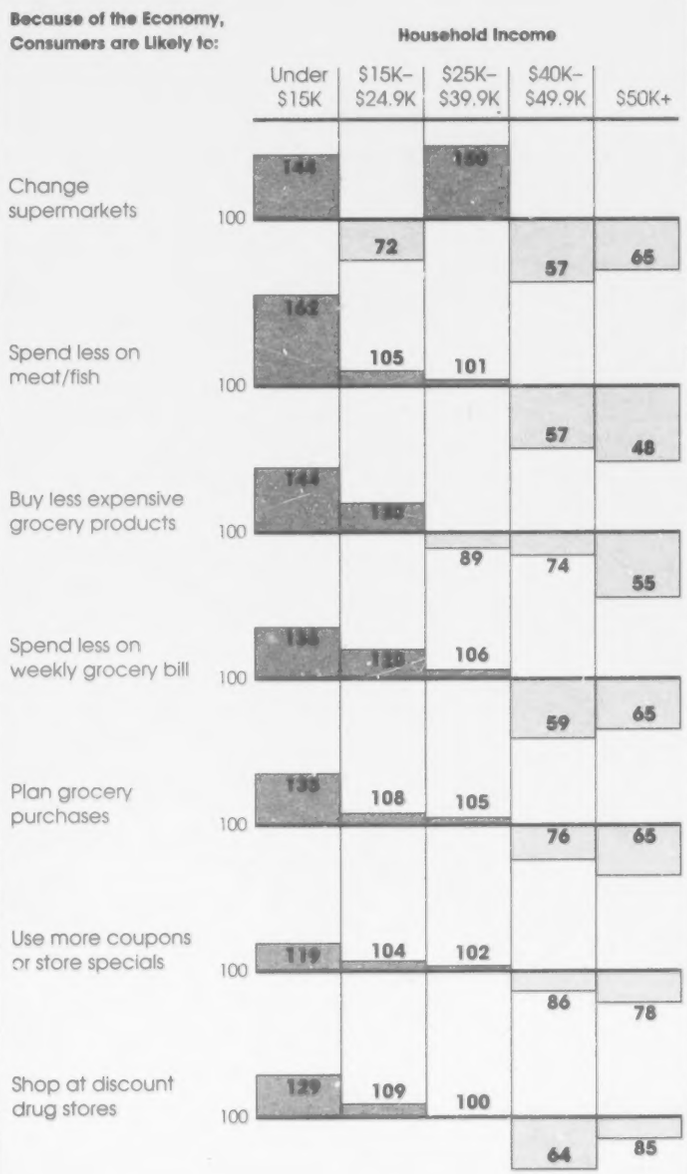
	Total	Northeast	North Central	South	West
Increased	36.7%	35.5%	36.5%	38.1%	35.6%
Increased, but More Specials Are Offered	21.4	29.6	19.3	21.7	14.9
Decreased	2.1	1.1	1.8	3.2	1.6
Decreased and More Specials Are Offered	2.5	.8	3.1	2.9	3.0
Stayed the Same	33.7	27.6	34.9	32.1	41.2
Don't Know	3.7	5.4	4.3	2.1	3.7
Total	100%	100%	100%	100%	100%

Consumers across the country were split as to whether they thought prices in their supermarkets rose during the past 6 months. Almost 37% of the consumers felt they were paying higher prices for supermarket products.

An additional 21% thought everyday prices were higher, but that their stores were giving them more specials; 34% saw no change in prices, with less than 5% benefitting from generally lower prices.

There wasn't much difference in the perceptions of prices being offered to them than other places in the country, and west coast shoppers saw fewer overall price changes.

Changes in Shopping Habits Among Different Income Groups
(Index of 100 is the national average)



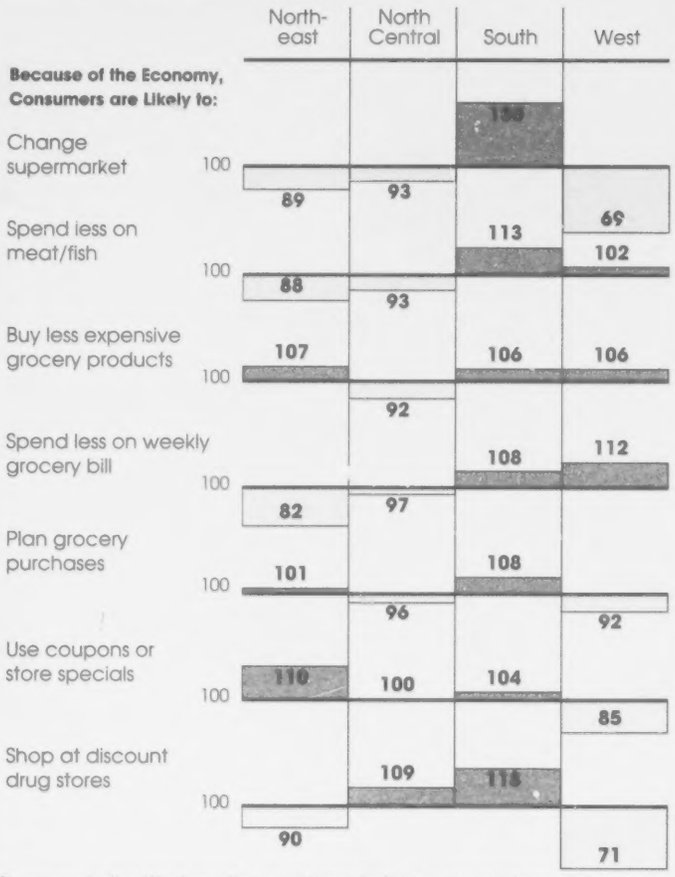
Not surprisingly, households with higher income levels are much less likely to change their shopping habits in response to the recession. In many cases, the group least likely to change their habits are those with incomes from $40,000 to $49,000.

The lowest income group, those earning less than $15,000, are the most likely to change the way they shop, especially in switching to cheaper cuts of meat or less expensive grocery items. These shoppers also spend less on their weekly grocery bills and plan their purchases more carefully. This group is also more easily pursuaded to change supermarkets, or to shop at discount drug stores.

Even when the hard times strike, consumers aren't willing to give up the convenience of prepared foods.

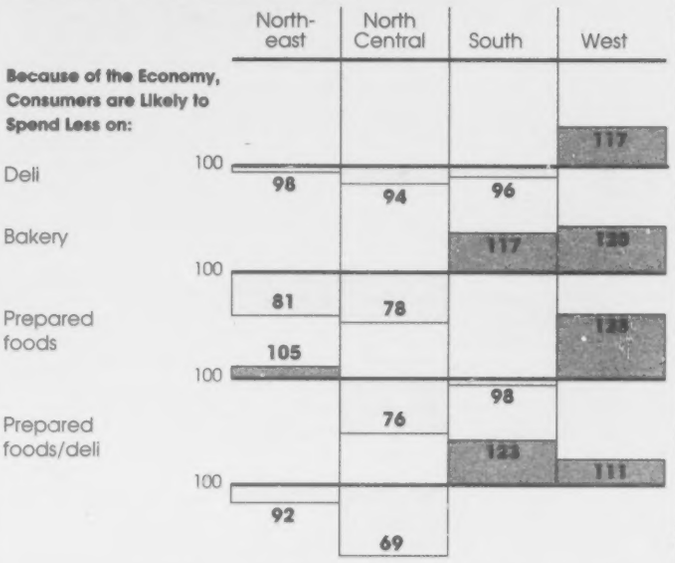
Consumer Survey

How the Economy Affects Shopping In Different Regions of the Country
(Index of 100 is the national average)



Shoppers in the West are the most loyal to their supermarkets, while those in the South are significantly more likely to change stores. Shoppers in the South and the North-Central regions are also more likely to shop at discount drug store these days. Southern consumers seem to have switched more to cheaper cuts of meat/fish and to spend less on grocery procucts (the West does too). Thile coupons and price specials are more effective in the Northeast and the South.

How the Economy Affects Shopping Instore Sections In Different Regions of the Country
(Index of 100 is the national average)



In general, most areas of the country appear to continue to be good markets for instore sales. Only the western part of the country consistently indicates that they shop the instore departments less often, and spend less per visit. The North-Central region is the least affected by the economy in terms of instore shopping, especially when it comes to purchasing prepared foods.

Effects of the Economy on Consumer Shopping Of Instore Departments
(Total sample—1,005 households)

Because of Economy, Consumers Are Likely to:

	Shop Service Deli	Shop Instore Bakery
More often	5.2%	3.7%
Less often	24.7	23.8
Same	58.5	59.7
Don't shop	11.6	12.6
Total	100.0%	100.0%

	Purchase Prepared Foods	Amount Spent on Prepared Foods/Deli
More often	6.0%	16.8%
Less often	32.2	25.3
Same	47.0	51.8
Don't shop	14.8	6.1
	100.0%	100.0%

Almost 60% of the consumers said they made no changes in how often they shop the service deli or the instore bakery. Since only 25% of the respondents said they shopped them less often, there is no real cause for alarm over the fates of these two departments.

Forty-seven percent said they purchased prepared foods at about the same rate as before the recession. Thirty-two percent said they had cut back on the frequency with which they buy prepared foods, and 6% purchase them more often today.

Despite buying prepared foods less often, almost 52% of the consumers said they spend about the same amount on their prepared or deli foods. Only 25% spend less, and almost 17% said they now spend more on prepared foods. Observers had thought foodservice departments would be the first to suffer in a recessionary cutback.

supermarket expenditures during the past few months. They also did not change supermarkets in search of lower-priced stores.

Another significant finding is that 47.6 percent of the consumers said they are now shopping discount drug stores more often. This seems to indicate that shoppers are most likely to change stores to seek out better prices for nonfoods items than for food products.

Instead of waiting for the major decline in sales that many retail economists have predicted, most retailers believe the industry has already seen the worst. "I think the recession will hit bottom and the economy will start to pick up in July, at least here in California," said Jack Brown, president/CEO, Stater Bros. (Colton, Calif.).

Fifty-nine percent of the retailers surveyed feel the recession has just about bottomed out, but many felt that sales would not pick up overnight. Recovery may be a gradual process. "It has almost bottomed out, but the economy will make a slow gradual comeback," said James Dewees, president/CEO, Sentry Markets (Waukesha, Wis.).

"The economy is starting to turn, but it will be a much slower climb than we had in the '80s," predicts William

Retailers have begun to see a move to less expensive meat and foodservice items in the past few months.

Rogers, president, Rogers Market (Ft. Wayne, Ind.). "I don't see folks feeling good until the first quarter of 1992. Those who went wild in the excessive '80s with plastic (credit cards) are feeling it now, and they don't want to fall into that category again."

Only 19 percent of the retailers felt the economy was going to continue on a downward trend, the remaining 22 percent declined to offer a prediction.

The accompanying charts reveal how both consumers and retailers responded to SUPERMARKET BUSINESS' questions on expenditures and shopping patterns in supermarkets during these economic hard times. ■

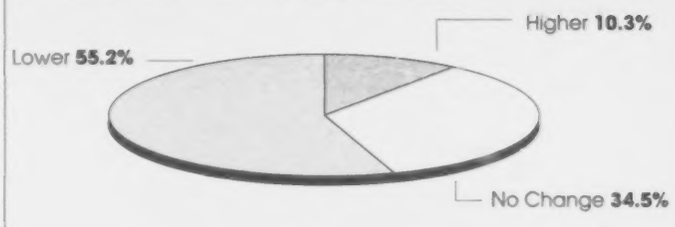
While retailers generally saw more of an effect on their sales than consumers admitted to, they claim the recession has not hurt them to a great degree. More than half the retailers did report a reduction in the average amount of their transactions, while a third saw no change.

Most perishable items were not hard hit by consumer reaction to the recession. Retailers report only slight trading down to less expensive deli, bakery or prepared food items. However, 59% do report that their consumers have switched to less expensive cuts of meat and fish. The hardest hit categories are grocery products, where 81% of the retailers felt that consumers were willing to by less expensive brands, or switch to private label products. Among grocery products there was some switching to larger package sizes to save additional money, but the practice was not widespread.

To aid embattled consumers and boost sales, 70% of the retailers claimed that they now offer more price promotions than they did a year ago.

Retailers' Analyses of Changes in Consumer Behavior in Their Stores

Change in Size (Dollars) of Average Transaction



Have Consumers Switched to Less Expensive Foods?

	Yes	No	Not Sure
Cuts of Meat/Fish	58.8%	20.8%	20.8%
Deli Items	23.9	57.2	18.9
Bakery Items	20.0	60.0	20.0
Prepared Food Items	25.0	55.0	20.0

Are There Any Signs of Consumers "Trading Down" on Other Types of Products?

Yes	81.3%
No	6.3
Don't Know	12.4
Total	100.0%

Are Consumers Buying Smaller or Larger Package Sizes of Grocery Items?

Smaller	8.0%
Larger	32.0
No Change	24.0
Not Sure	36.0
Total	100.0%

Changes in Price Promotions Over Past Year in Your Stores?

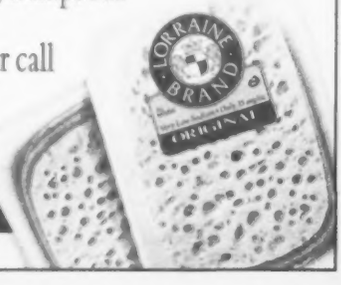
More Specials	70.0%
Fewer Specials	0.0
Same	30.0
Total	100.0%

Has the Recession Hit Bottom Yet?

Yes	59.4%
No	18.7
Don't Know	21.9%

YOUR CUSTOMERS ARE ON A FIRST-NAME BASIS WITH LORRAINE.

There's only one sandwich cheese your customers ask for by name. Because shaved or sliced, Lorraine is the one-of-a-kind cheese that makes sandwiches special. It not only sells itself, it helps sell the deli meats that go with it. So contact your Lorraine representative or call 1-800-8CHEESE, and stock the cheese people are asking for by name.



Lorraine creates additional profits in your self-serve deli section

SUPERMARKET BUSINESS

NONFOODS BUSINESS

INSIGHTS FOR MANAGEMENT AND THE GM/HBA SPECIALIST

TAKE A RIDE ON THE GM SCREAMER

GENERAL MERCHANDISE OPERATIONS REVIEW

There is no simple explanation for the wildly fluctuating pattern of yearly GM growth. It appears to be a complex bundling of factors, some even occurring by chance.

BY DAVID LITWAK AND JANET TORRES CEPEDA

■ Have you ridden on the latest thrill ride? It's a roller-coaster called the Great General Merchandise Sales Screamer!

You don't need a ticket to ride the Screamer. You don't even need an amusement park. Just chart the annual sales growth of your GM department over the past 5 years and hold on tight; it's a ride that has steep ups and downs and sharp hairpin curves.

While the sales of general merchandise products in supermarkets have grown every year since 1985, the rate of yearly growth has gone up and down like a roller coaster. No two consecutive years have shown similar GM growth. The pattern has been one year of high growth followed by a year of much lower growth, with high growth returning during the third year.

For example, GM sales in 1990 reached $11.43 billion, which was an increase of 3.9 percent over 1989. Sales in 1989, which were $11.0 billion, were an increase of 11.1 percent over 1988, while sales in 1988 showed an increase of only 2.5 percent over 1987. That year was a very good year for GM, because 1987's sales represented a 13.5 percent increase over 1986. Completing the up-and-down pattern, 1986's sales were only 4.4 percent above those of 1985.

While GM sales between 1985 and 1990 rose a total of almost 40 percent, the rate of increase has been very cyclical, but at the same time, erratic. This makes planning for a GM department and predicting sales a difficult task for both retailers and suppliers.

There is no simple explanation for this cycle of relative gains in GM sales. It appears to be a complex bundling of factors, some even occurring by chance, that accounts for this growth pattern.

Some of the blame for this pattern can be laid at the feet of the retailer and some can be attributed to the nature of GM products.

GM is an amalgamation of product categories that runs from the essential to the obscure. While retailers are familiar with many of these products, such as light bulbs and stick goods, other products are relative newcomers to the supermarket.

At various times during the past 5 to 10 years, many supermarket companies greatly increased their GM departments, adding both new categories and vastly increasing the product representation of others. Housewares, home/office, video cassette rentals, apparel, hardware, auto and high ticket items are all examples of categories that exploded in supermarkets across the country. Suddenly, these products seemed to be in every large

SALES & PROFITS

Sales of general merchandise through supermarkets rose 3.9% during 1990, to reach the $11.43 billion mark. This is a new record for dollar sales in the department. The 3.9% increase was much lower than the 11.1 percent that GM enjoyed during 1989, continuing the pattern of high growth, followed by low growth, followed by a high growth year that the department has exhibited over the past 5 years. Departmental growth was fairly universal. While 84% of operators said their GM sales had increased in 1990, only 11% reported a decrease. The remaining 5% said their GM sales were stable between 1989 and 1990.

With average weekly sales reaching $7,148, the GM department now accounts for about 4.3% of the sales of the total store. The department accounts for more than 10% of sales in combination stores.

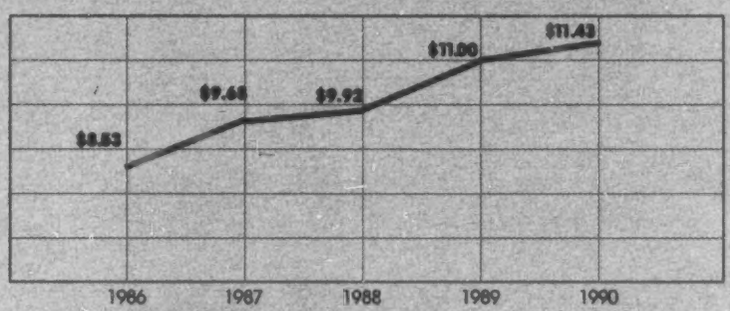
Profits are an important part of the GM story. On average, GM departments contribute roughly 14.7% of the total profits of the store, and just short of 37% when the department is in a combo store. This is due, in part, to an average departmental gross margin of 32.8%.

General Merchandise Sections:

Number of Stores that Sell General Merchandise	38,750
Percent of Supermarkets	100%

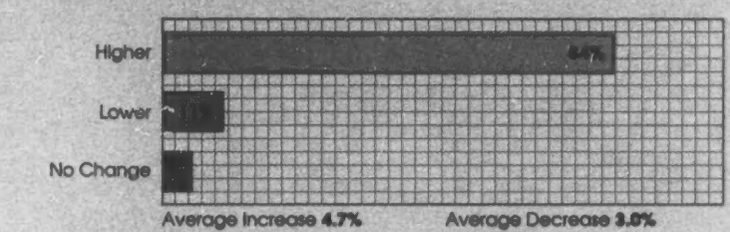
Average Weekly Sales		Average Weekly Sales	
Mean $7,148	Median $7,381	Less than $5,000	5%
		$5,001–$6,000	8
Conventional Stores	$4,812	$6,001–$6,500	26
Larger Stores	$12,971	$6,501–$7,000	35
		$7,000 or More	26
		Total	100%

Annual Sales (billions)



Changes in Dollar Sales (1989 vs. 1990)

(Percent of Companies Reporting)



Share of Total Store Sales	
Overall Mean	4.3%
In Combination Stores	10.3%
Contribution to Total Store Profits	
Overall Mean	14.7%
In Combination Stores	36.9%

Gross Margin	
Mean 32.8%	Median 35.0%
Less than 28%	11%
28–29	17
30–31	30
32–33	24
34 or More	18
Total	100%

supermarket at once, appearing almost overnight.

This increase in the number of GM products often occurs along with new store openings or remodelings. This spurs the sales of these products. When several GM product categories get hot during the same year, the sales of the whole department can increase greatly.

Oddly, the increase side of this cycle is easier to explain than the downside. If there are more products in stores, why do sales increases go way down in the years following an increase?

Part of the explanation involves overstocking. In many cases, GM has fallen victim to an old problem: When a company goes into a relatively new area, management is not sure what will work or sell, so they bring in more categories or varieties than they really need.

During the next year there is usually a shake-out. Items that do not move are phased out and the department becomes smaller. This, of course, lowers the department's sales increases and wears out the novelty factor for shoppers.

Another factor that has reduced growth is discounting. Many retailers, after the initial year of expanding GM, begin to discount their GM merchandise due to competitive pressures from neighboring supermarkets and other classes of retailers. Additionally, discounting is part of an effort to unload the unwanted inventories.

Many GM products are durables stuck in a world of consumables.

The nature of many GM products also affects the cycle of sales growth. Many GM categories are foreign to the supermarket; they are durables stuck in a world inhabited by consumables.

Let's face it, you don't sell most houseware products once a week, or even once a year, to the same customer. Once you sell a customer a frying pan, or a set of glasses, a hammer, a radio or a broom, you've lost that customer for that product for quite some time.

An example is microwave cookware. When these products were introduced into supermarkets in 1987, sales took off. But in 1989 the demand abated and sales to new consumers slowed.

Today, the movement in the category is negative. In 1990, sales through grocery outlets fell by 6.7 percent. Sales most likely will increase again, but only when the original pieces begin to wear out, unless new products are introduced into the category.

This slow turnover rate of many GM products has been a disappointment to many retailers, prompting a cutback of many of the slower moving items.

Record Sales

The vast range in the scope and diversity of GM departments in supermarkets nationwide makes it difficult to describe the operations of the "typical" department. But some clear facts concerning sales have emerged.

Last year's sales figure of $11.43 billion was the highest ever recorded. The 3.9 percent rate of growth of the department was fairly typical of growth throughout the store during 1990.

On average, weekly sales per store of GM reached $7,148 last year. Of course, individual stores experience a wide range of actual weekly sales, depending on the degree to which they stock GM products.

On the most basic level, average weekly sales can be examined by comparing conventional stores to stores that have larger formats. Average weekly sales for conventional stores were $4,812, while for larger stores the weekly average was $12,971.

GM now accounts for about 4.3 percent of the annual sales in supermarkets. This figure goes up to more than 10 percent in combination stores,

and even higher in hypermarket formats.

The contribution of GM products to overall store profits is high. The 4.3 percent of store sales that comes from GM, for example, accounts for an average of 14.7 percent of the store's profits. In combo stores, where GM averages 10.3 percent of sales, the department accounts for an average of 36.9 percent of store profits.

Fueled by higher ticket items, GM continues to achieve high average gross margins, and it was able to extend its margins as a department last year. The department now has an average gross margin of 32.8 percent, up slightly in the past year.

Despite a slowdown in sales growth last year, GM sections continued to grow in size. The GM department increased by about 50 gondola feet to an average of 345 gondola feet. The increase occurred because stores tested new products and rearranged their merchandising of GM products. In many cases the increase represented a few extra feet for many categories spread throughout the section, rather than one large new display area for a whole new set of categories.

With the increase in the size of the GM department, coupled with the minimal increase in 1990 GM sales, sales per gondola foot decreased last year. On average, each gondola foot in the GM department brought in about $20.72 a week in 1990, while weekly sales per gondola foot were $23.36 in 1989.

If the returns per gondola foot were disappointing last year, labor costs were a bright spot in the GM section. The number of employees manning the departments increased slightly, but this increase did not adversely affect costs.

Retailers report needing an average of 2.5 full-time employees to staff the section, as opposed to the 2.1 employees that it took in 1989. This represented a slight increase in both full-time and part-time staffs.

The good news is that the percentage of departmental costs that went to pay for labor declined. This percentage dropped from 5.4 percent in 1989 to 5.1 percent in 1990. In the case of labor, the increase in GM sales compensated for the increase in man-hours.

Another factor is an apparent increase in the use of service merchandisers. Fifty-six percent of the retailers reported that they used service merchandisers in at least some of their stores. This is significantly more than the 43 percent reporting an association with service merchandisers a year ago.

All this has helped push up the average weekly departmental sales per employee, which reached $2,859 in 1990. This is about $636 higher than the same employee brought in to the store in a week the prior year.

SPACE AND LABOR

The average number of gondola feet devoted to GM in the supermarket increased last year, climbing to 345. This is a rough estimate, because most retailers cross-merchandise GM products throughout the store.

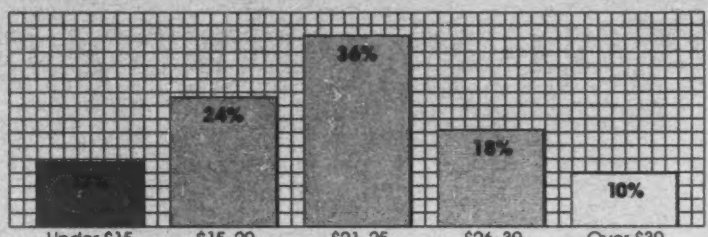
Using 345 gondola feet as a rough average, the average weekly sales per gondola foot were $20.72. This is a decrease from the sales per gondola foot in 1989, which reached $23.36. This is due to the increase in size of the department, against the relatively small departmental sales growth.

Labor presents a brighter picture than sales per gondola foot. While the number of employees devoted to the GM department rose slightly to an average of 2.5 full-time equivalent employees last year, the sales per employee did not decrease.

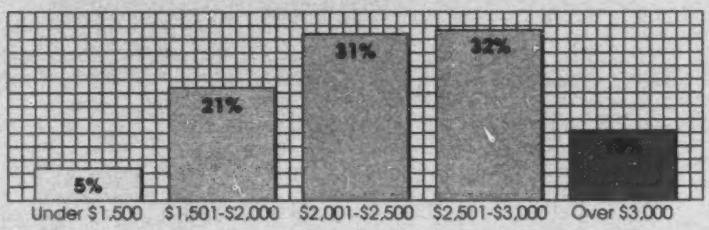
Weekly sales per employee were up significantly last year, reaching $2,859. This was an increase of more than $600 in sales per employee. Not only did each employee bring in more sales dollars last year, it cost the department less money for those employees. The amount of sales that went to pay for labor in 1990 was 5.1%, a small drop from the 5.4% labor cost of 1989.

Size of Department		By Store Format	
Mean	345 gondola feet	Conventional	225 gondola feet
Median	415 gondola feet	Larger Stores	1,075 gondola feet

Average Weekly Sales per Gondola Foot Mean $20.72



Average Weekly Sales per Employee Mean $2,223



How Much for Labor	
(Labor as a Percent of GM Sales)	
(Store Employees Only)	
Mean	5.1%
Median	4.2%
Percent of companies using service merchandisers in at least some of their units:	56%

Number of Employees	
Full-Time	1.8
Part-Time	1.7
Full-Time Equivalent	2.5

Fragmentation makes merchandising the department a very difficult assignment.

A Plethora of Products

GM sections, of course, contain a large number of diversified products. As a matter of fact, the definition of a GM product is one that isn't a food item, HBA product or a household supply, and some of the products in this latter category are also GM.

There is no shortage of SKUs in the GM section, and the trend is toward adding more. Sixty percent of the retailers reported that they added more GM items to their sections during the past year. Of the remaining retailers, 35 percent reported that their GM departments had stayed about the same, while only 5 percent carried fewer products in 1990 than in 1989.

It seems that the future will be much the same as the past. Seventy percent of the companies expect that they will increase the number of GM products they carry in the future. The remaining 30 percent predict no drastic changes in their future departments. In the future, just as in the recent past, few retailers will significantly scale down the number of GM products they sell. They may be willing to change the scope of their operations, or the price points of the products they carry, but they will not offer their customers less overall variety.

The closest thing to a dominant category, or group of categories, in the GM department continues to be housewares. As an associated group of products, housewares accounts for 17 percent of GM sales. Housewares showed an increase in sales in supermarkets of 5.4 percent during 1990, which made it one of the higher increasing categories.

Periodicals, which account for 15 percent of the sales of GM, is the second largest seller in the department. Housewares and periodicals are the only two categories that have a double-digit share of the GM sales pie. This attests to the fragmented nature of the GM section.

This fragmentation makes merchandising the department a very interesting assignment. Retailers approach this merchandising in a number of different ways, usually within the same given store.

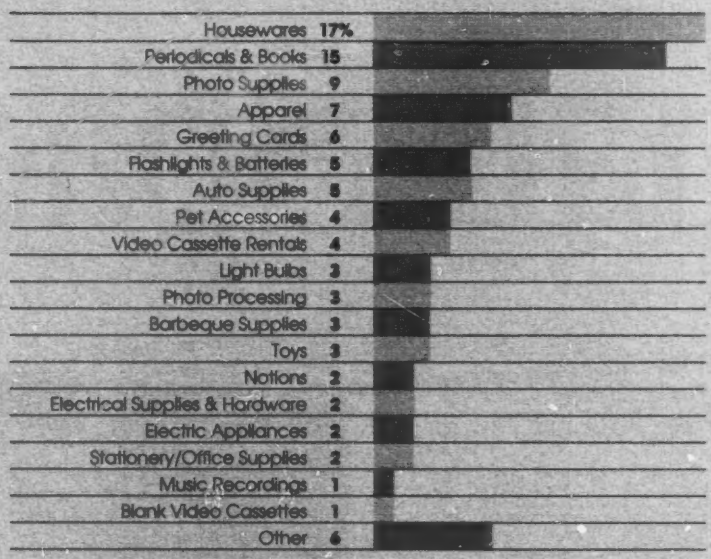
PRODUCTS

There is no dominant GM category or groups of categories, such as those found in the fresh meat, deli or dairy departments.

The best that GM can muster is the housewares categories, which taken as a group, accounts for only 17% of the department's sales. Other strong GM categories include periodicals, photo supplies, apparel and greeting cards. None of the remaining categories accounts for more than 5% of the department's sales.

Retailers increased the number of products they carried in their GM sections last year, and will continue to do so in the future. Sixty percent of the operators increased the number of items they carried during 1990, and 70% say they will add more items in the future. This will, perhaps, fuel 1991's departmental growth. Greeting cards and stationery/home-office supplies were among the categories that retailers considered the hottest sellers in 1990. They were also categories that received the largest increases in space in 1990.

Portioning Out GM Sales



Number of GM Items Carried

In Past Year		In Future	
Increased	60%	Will Increase	70%
Decreased	5%	Will Decrease	0%
Stayed the Same	35%	Will Stay the Same	30%

GM Items Most Frequently Added Or Given Increased Space

—Blank Video Cassettes
—Home/Office Supplies
—Greeting Cards

Hottest GM Categories In 1990

—Greeting Cards
—Lunch Boxes
—Video Cassette Rentals
—Tableware
—Stationery

MERCHANDISING & PROMOTION

Generally, GM has not been treated as a cohesive category, but one that is spread throughout the store. Twenty-two percent of the retailers cross-merchandise GM products throughout the store. An additional 56% have a separate section for some of their GM categories, while cross-merchandising others. Only 22% of the operators say that they have a separate section for almost all their GM products.

Retailers are relying more and more on point-of-purchase materials to promote their GM sections. Seventy-six percent now report using POP materials, up from the 50% in 1989. This jump reflects the extra effort made by manufacturers to provide usable POP displays and signage. Newspaper ads and store circulars are also popular methods of GM promotion.

How GM is Merchandised (Companies)

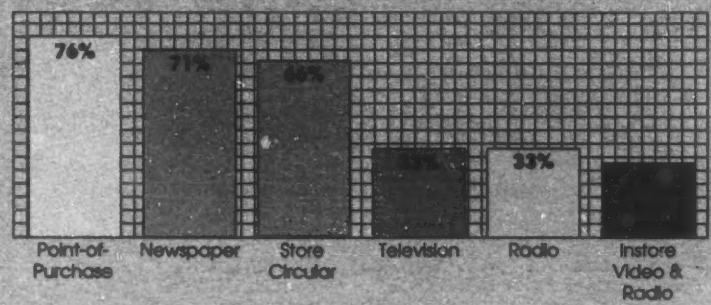
As Separate Section	22%
Cross-Merchandised Throughout the Store	22%
Combination of the Above	56%

Stores With Service Counters for GM (6%)

What is Sold at Service Counters:

—Cameras
—Electronics
—Jewelry
—Video
—Watches

Advertising and Promotion (Percent Using)



Twenty-two percent of the retailers indicated that they merchandise GM as a completely separate section, while another 22 percent prefer to cross-merchandise GM products throughout the store. By far the most prevalent method of merchandising GM is to use a combination of cross-merchandising some products and having some categories separated into their own cohesive sections.

Service counters are not catching on in the GM sections of supermarkets. Only about 6 percent of the stores use service counters for their higher-ticket GM items. Most stores still prefer leaving the sale of those items up to their courtesy desk operations, or having them displayed in a part of the store where they are not easily accessible without the assistance of a clerk from one of the neighboring sections.

A perennial favorite among GM buyers is the greeting cards category. Last year was no exception. With sales of almost $644 million in supermarkets, the category was the departmental leader in sales growth, increasing 9.0 percent over 1989's sales. With an average gross margin of almost 50 percent, retailers are overjoyed at the large sales increases in this category.

To the surprise of some, although not everyone, there has been a big increase in the use of point-of-purchase materials to promote the GM sections. A year ago only about half the retailers reported using POP materials, but now 76 percent say that they are making use of this promotional tool.

Newspapers are now the second most popular means of promoting the department; they are used by 71 percent of the operators, up slightly from a year ago. Last year's promotional tool leader, store circulars, were off in popularity just a bit, falling from 68 percent to this year's level of 66 percent usage.

Will retailers ever be able to break the cycle of low growth, followed by high growth, followed by another year of low growth? Probably not. And if they could do something to break this cycle, most retailers, with a big increase in the growth of GM predicted for the coming year, would do nothing. The prevailing sentiment seems to be: Wait till next year. ■